

Sizing Up Brazil's Demanding Market

By Ronald Verdonk

The word is getting out. Brazil is much more than just World Cup soccer championships, Rio de Janeiro, the pre-Lenten Carnival festival and the Amazon. Brazilian agriculture is a powerhouse, and the country is No. 1 or 2 worldwide in the

production of a number of agricultural goods.

U.S. suppliers may therefore find exporting their goods directly to Brazil quite challenging. But U.S. agribusinesses are profiting from integrating their operations into one of the Western Hemisphere's largest economies.

A Country Snapshot

With an area slightly smaller than the United States and a population of about 182 million, Brazil comprises half of

South America. It is a country of diverse cultures, varied topography, rich agricultural lands and favorable climatic conditions that support expanding production of a panoply of commodities.

Brazil today is the world's largest producer of coffee, sugar, citrus, and, of course, brazil nuts! It has more cattle than any other country and is the second largest producer of soybeans, corn and poultry, and a principal producer of pork, tobacco, cotton, rice, cocoa and cashews. In addition, it is a leading supplier of fruits



U.S. AGRICULTURAL EXPORTS TO BRAZIL TYPICALLY CONSIST OF COTTON, SWEETENERS AND BEVERAGE BASES.

including bananas, papaya and pineapple. Wheat is the only major commodity that Brazil must import in large quantities.

This situation, combined with Brazil's low average disposable income, limit the salability of a wide range of U.S. agricultural products. In fiscal 2002, U.S. agricultural exports to Brazil totaled \$318 million; Brazil's exports to the United States approached \$1.1 billion.

Competition Inside and Out

Brazil's agricultural industry is so developed that imported food products account for less than 5 percent of overall retail sales. And the major share of the shopping basket of imported foods and beverages is supplied by Argentina, Uruguay and the EU (European Union).

In the case of its South American neighbors, this is attributable to preferential non-tariff treatment applied to goods traded within MERCOSUR—the economic and political bloc consisting of Argentina, Brazil, Paraguay and Uruguay, with Chile and Bolivia as adjunct members. Geographic proximity also favors trading among these countries.

Targeted U.S. Market Prospects

In view of these challenges, how can U.S. agricultural, food and beverage suppliers and U.S. agribusinesses make the most of the Brazilian market? U.S. merchandisers should consider opportunities to export to Brazil's consumer-oriented market.

U.S. agricultural exports to Brazil typically consist of some cotton, sweeteners and beverage bases; a smattering of shelf-ready processed foods; and occasional sales of rice, wheat and corn to compensate for local and regional shortfalls.

U.S. high-value product exports could

U.S. Companies Active in Brazil

From grains and oilseeds to pork and livestock to consumer items and pet foods, the multinationalization and integration of American agribusiness is proceeding full speed ahead in Brazil.

Sector	Company	Employees in Brazil	Began Brazilian Operations
Grains and Oilseeds	Archer Daniels Midland Company	1,800	1997
	Bunge Limited	27,800	1905
	Cargill, Incorporated	5,300	1965
	Harvest States	22	2003
Seeds	Dow Agrosciences	630	1996
	DuPont (Pioneer Hi-Bred)	1,200	1937
	Monsanto Company	2,300	1964
Consumer Items	Kraft/Phillip Morris	10,615	2000
	Carroll Foods (Smithfield)	NA	NA
	Swift Armour	NA	NA
	Coca-Cola	25,000	1942
	Pepsico (Elma Chips/Quaker/Pepsi-Cola)	7,000	1953
Fast-Food Restaurants	McDonald's	36,000	1979
Pet Foods	Agribands	630	2000
	Corn Products Brasil	1,000	1929
	Quaker Brasil	3,100	1952

NA = not available.

climb if more Brazilian consumers acquire the purchasing power to buy them more frequently. The FAS Agricultural Trade Office in Sao Paulo estimates that 8-10 million Brazilian consumers can regularly afford to purchase imported food products.

The United States could also benefit from reduced or eliminated import duties in Brazil, which could be realized in the ongoing Free Trade Area of the Americas negotiations. Such tariff liberalization should increase U.S. wheat exports to Brazil, which in 2002 were \$90 million.

A Booming Agribusiness Sector

Other U.S. companies need to consider starting from scratch by making investments in selling inputs and in buying and processing products in Brazil, and selling them in local and third-country markets.

Many multi-national grain companies headquartered in the United States rely on Brazil for bulk commodities and other products, which go to local and export markets. Companies in the food and beverage business, however, tend to produce in and for the Brazilian market, doing little exporting.

Archer Daniels Midland Company, Bunge Limited, Cargill, Incorporated, Pioneer Hi-Bred and Monsanto Company have established a history of doing business in Brazil, and the list continues to grow.

Pioneer Hi-Bred and Monsanto have marketed seeds to Brazilian farmers for several years (in fiscal 2002, U.S. planting seed exports approached \$8.4 million). Archer Daniels Midland, Bunge and Cargill have been providing producer credit, as well as buying, processing and



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exporting soybeans, for about the same time. Harvest States, the third-largest U.S. merchant of grains and oilseeds, opened an office in Brazil in January 2003. U.S. agribusiness investment in Brazil, already substantial, is poised to grow solidly for years to come.

Business Attractions

What has attracted U.S. companies to Brazil? In three words: the Bottom Line! Without question, the main attractions of buying, processing, selling locally and exporting from a Brazilian base are: low production costs, a large consumer base and a growing agricultural industry. Brazil offers the potential for an integrated commercial operation from production through retail. Moreover, it's the Western Hemisphere's largest democracy south of the United States and is politically stable.

For those in the commodity crop business, because of the opposite growing seasons in North and South America,

Brazil's production cycle complements that of the United States, contributing to a year-round commodity flow.

A Taxing Market

But there are regulations and policies that U.S. companies operating in Brazil's agricultural sector find quite cumbersome or costly. The following should be noted:

Taxes: And plenty of them! Among the more onerous are the ICMS, value-added taxes imposed by states in Brazil. The ICMS rate varies from state to state, and applies to all goods that are brought into a given state for processing and/or final sale.

Brazil also has a national value-added tax that applies to processing but not to merchandise. Another tax, COFINS, is assessed at the national level at a rate of 3 percent of the value of the services or goods sold by a company. Overall, Brazil has an average tariff rate of 16 percent.

In February 2003, the Brazilian Institute of Tax Planning placed Brazil

third-highest (at 36.5 percent) in a ranking of countries' tax burdens as a percentage of gross domestic product. (Sweden was number one on the list, and the United States ranked sixth.)

Custo Brasil, or the Brazil Cost:

This is the sum of informal costs of doing business in Brazil due to local, state and national bureaucracies, corruption and poverty. In 2001, Transparency International ranked Brazil number 45 on its country corruption index, with No. 1 being the least corrupt country in which to do business. ■

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